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Economic and Financial Reconstruction of Czechoslovakia

By DR. BEDŘICH ŠTĚPÁNEK

Minister from Czechoslovakia

THE Czechoslovak people accepted the privilege and duty of self-government with full realization of the great problems and obligations incumbent upon them as a junior member in the family of nations. The day of liberation, October 28, 1918, was not a day of exultation alone, but rather a day on which to lay the basis of a sound national policy, especially along economic and financial lines.

While many other countries were and are planning financial reforms to be carried out, the Czechoslovak Republic, during its first three years, has put into effect the financial plan of the first Minister of Finance, tending to check currency inflation, eliminate unproductive state expenses and balance the budget, and thus, since the very beginning, has been in complete harmony with the now generally accepted principles of the post-war reconstruction of Europe.

This fact, of vital importance especially for the reconstruction of Central Europe, I should like to illustrate in some detail.

GENERAL ECONOMIC CONDITIONS

The lands now constituting the Czechoslovak Republic (Bohemia, Moravia and Silesia, voluntarily joined by Slovakia and Subcarpathian Russia) were formerly the northern part of Austria-Hungary, above the middle Danube and upper Tisza Rivers.

Czechoslovakia has an area of 54,000 square miles, and a population of 13,600,000 inhabitants. The country is so richly endowed with raw materials,

timber, coal and water power, that 75 per cent of the industrial population of the former Austro-Hungarian Empire, now situated in Czechoslovak territory, has sufficient means of existence.

The country has large deposits of precious and base metals, of caolin, graphite, magnesite, sulphur, salt, etc., forming the backbone of its extensive industries. Promising oil wells have recently been discovered; the richest radium mines of Europe, Jachymov (Joachimsthal), are situated in Bohemia as well as the famous watering-places of Carlsbad (Karlovy Vary), Marienbad (Marianske Lazne), etc.

The output of coal (bituminous and lignite) increased during 1921 from 28 million tons to the normal 32 million tons. The production of iron and steel has almost reached the pre-war level of 1,700,000 tons of pig iron, and supplies the necessary material for the machinery industries, enjoying an excellent reputation especially in the field of sugar refineries, distilleries, breweries and agricultural implements.

The new electrical law provides not only for a systematic utilization of the water power, but for the general electrification of the country.

Czechoslovakia owns large locomotive and car works, which have enabled her in a short time to restore the rolling stock for 8,300 miles of railways.

Of other various industries such as glass, china, chemical, leather, shoe and glove industries, only the large textile and, in part, the metal in-

dustries depend to any great degree on the importation of foreign raw materials, such as cotton, wool, flax, copper, etc. Normally, about 650,000 bales of cotton (90 per cent from the United States) are imported yearly for the 3,600,000 Czechoslovak spindles.

The success of Czechoslovak industry is firmly based on its progressive methods of production and its skilled workers with their ability to adjust themselves to the requirements and taste of foreign nations, for there is scarcely a country in the world which is not being supplied with various products of Czechoslovak make (known before the War under the name "Bohemian" or under the trade mark "Made in Austria").

Under normal conditions Czechoslovakia is almost self-supporting; it is anticipated that in 1922 the requirements of breadstuffs will be met by the yield of the home fields and an import of merely 80,000 tons of additional grain.

FOREIGN TRADE

Owing to its geographic position in the heart of Europe, on the oldest trade routes, Czechoslovakia, ever since the Middle Ages, has taken a very active part in the trade between Europe and Asia, and has always used its natural resources for the progressive development of its industries and trade.

To stabilize the conditions of foreign trade, Czechoslovakia has concluded commercial treaties based on reciprocity and liberal tariff system with:

Switzerland, March 6, 1920; Jugoslavia, May 18, and December 4, 1920; Germany, June 29, 1920; Bulgaria, August 4, 1920; France, November 4, 1920; Roumania, February 24, 1921; Italy, March 23, 1921; Austria, May 4, 1921; Poland, October 20, 1921, and Spain, November 25, 1921.

In spite of many unfavorable factors

the foreign trade has effected remarkable improvement. For 1919, the total imports amounted to \$130,146,140 (average exchange value of 50 crowns for one dollar). For 1920, the imports, due to the extraordinary imports of foodstuffs, reached \$233,500,000. The quantity of imports shows an increase (3,910,156 tons for 1920 and 3,961,716 tons for 1921) of 1.3 per cent only.

Exports have steadily increased, the value of the exports of 1919 being \$113,751,380, an amount exceeded by the 1920 exports of \$428,900,000, by over \$315,000,000. The quantity exported during 1921, 9,645,766 tons, shows an even greater increase over the quantity during 1920 of 6,902,221 tons, i.e., an increase of 39.7 per cent. The progressive increase of 1921 over 1920 and of 1920 over 1919, in spite of a lower exchange value, is indicative of the rapid recovery of Czechoslovak industries and foreign trade.

The trade balance for 1919 was unfavorable by slightly over sixteen million dollars. This loss was not only eliminated in 1920, but a favorable balance set up of four billion of Czechoslovak crowns, which is equal to about forty-nine million dollars. According to the estimates for the first nine months of 1921 a further increase of 50 to 100 per cent is to be expected.

Tables I, II and III show the growth of trade by commodities and the countries of origin and destination.

The Czechoslovak Republic has maintained its pre-war trade with Poland and the states served by the Danube River, Austria, Hungary, Jugoslavia, Bulgaria and Roumania, which are the natural markets for Czechoslovak industries, and trade with them has resulted in a favorable balance of 11,000,000,000 Czechoslovak crowns. About 56 per cent of the total value of exports and about 75 per cent of the

TABLE I. IMPORTS AND EXPORTS OF THE CZECHOSLOVAK REPUBLIC
(By Commodities 1920)

Import	Volume in Long Tons	Value in Thousand Crowns	Export	Volume in Long Tons	Value in Thousand Crowns
Sugar.....	5,255.0	11,770	Sugar.....	248,648.3	3,405,344
Tobacco.....	10,720.6	296,294	Malt, grain and other breadstuffs..	86,554.1	731,256
Breadstuffs.....	246,998.4	2,300,054	Other foodstuffs.....	32,353.1	1,294,788
Fats.....	46,893.8	1,080,375	Fruits.....	89,892.9	909,933
Coal and timber.....	1,319,602.8	520,934	Coal and timber.....	5,184,260.8	1,740,897
Minerals.....	927,450.6	202,249	Glass.....	140,067.1	1,898,025
Cotton and cotton goods.....	69,205.9	5,020,843	Cotton and cotton goods.....	10,778.7	2,525,613
Wool and woolen goods.....	19,214.9	2,211,535	Wool and woolen goods.....	10,505.2	6,683,764
Iron and steel.....	114,790.0	929,595	Clothing.....	2,139.3	904,817
Base metal.....	28,702.2	765,763	Iron and steel.....	163,926.5	1,511,288
Electrotechnical ware.....	5,650.5	768,789	Paper and paper products.....	76,605.7	695,434
Chemicals.....	195,246.6	571,247	Leather and leather goods.....	2,825.5	642,242
	2,989,731.3	15,188,448 (64.95%)		6,048,557.2	22,943,301 (83.22%)
All others.....	920,424.7	8,195,964 (35.05%)	All others.....	853,663.7	4,626,114 (16.78%)
Total.....	3,910,156	23,384,412	Total.....	6,902,220.9	27,569,415

TABLE II. IMPORTS AND EXPORTS OF THE CZECHOSLOVAK REPUBLIC
(By Countries in Long Tons and Thousand Crowns)

Country	1920 Import		Export		1921 Import		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Belgium.....	83,146.2	1,086,336	7,993.4	134,292	37,451.0	22,770.7	37,451.0	22,770.7
France.....	24,654.5	954,813	195,815.8	2,373,630	31,756.9	170,089.7	31,756.9	170,089.7
Italy.....	52,343.0	1,002,989	173,905.2	1,300,945	85,654.8	143,105.0	85,654.8	143,105.0
Hungary.....	87,120.8	655,833	322,521.5	2,512,409	249,252.9	1,322,277.7	249,252.9	1,322,277.7
Germany.....	2,078,464.3	5,601,603	3,088,073.6	3,330,377	1,888,844.3	3,599,521.8	1,888,844.3	3,599,521.8
Poland.....	106,097.6	399,163	176,294.0	1,425,429	142,700.7	354,094.2	142,700.7	354,094.2
Austria.....	327,241.3	3,043,554	2,393,114.2	9,678,018	314,027.9	3,305,633.0	314,027.9	3,305,633.0
Roumania.....	54,660.6	308,476	34,811.1	732,071	87,765.2	80,099.3	87,765.2	80,099.3
Jugoslavia.....	31,309.0	340,064	63,573.0	1,081,633	60,294.7	131,939.6	60,294.7	131,939.6
Switzerland.....	15,949.8	625,452	91,661.2	766,401	6,756.8	79,005.0	6,756.8	79,005.0
Great Britain.....	32,324.7	1,008,998	25,891.0	813,300	97,692.9	152,438.3	97,692.9	152,438.3
United States.....	208,354.9	4,110,695	21,103.7	544,328	375,866.4	25,460.1	375,866.4	25,460.1
Bulgaria.....	2,129.4	53,379	9,304.1	129,296	32,556.3	8,235.5	32,556.3	8,235.5
Other American countries.....	30,509.2	430,839	5,237.3	212,637	166,886.5	7,561.8	166,886.5	7,561.8
All other countries.....	775,850.7	3,812,218	292,921.8	2,534,349	384,209.6	243,535.1	384,209.6	243,535.1
Total.....	3,910,156.0	23,384,412	6,902,220.9	27,569,415	3,961,716.9	9,645,766.8	3,961,716.9	9,645,766.8

TABLE III. IMPORTS AND EXPORTS OF THE CZECHOSLOVAK REPUBLIC
(By the Main Commodities 1920 and 1921 in Long Tons)

Import	1920	1921	Export	1920	1921
Foodstuffs	246,998	598,000	Foodstuffs	32,353	12,700
Lard and fats	46,893	43,000	Sugar	248,648	447,000
Salt	280,389	144,500	Fruit and vegetables	89,892	69,000
Chemicals	195,246	168,000	Chemicals . . . . .	.....	62,000
Iron and steel	114,790	127,000	Iron and steel	163,926	199,000
Minerals	927,450	821,000	Minerals	502,288	605,000
Coal and timber	1,319,602	1,134,000	Coal and timber	5,184,260	7,632,000
Mineral oil	131,831	104,000	Paper and paper goods	76,605	78,500
Cotton and yarns	69,205	94,900	Cotton and cotton goods	10,778	32,000
Wool and woolen manu- factures	19,214	29,000	Wool and woolen goods	10,505	12,000
			Glass and glassware	140,067	133,000
			Machinery . . . . .	.....	46,800
			Malt, grain and malt products	86,554	35,000

total value of the cotton and wool products were exported to these countries in 1920. Germany shared in the exports to the extent of 12 per cent, the western European and the overseas countries 32 per cent, partly for their own consumption, partly for re-exportation.

With the exception of France and Italy, the Czechoslovak Republic has, on account of excessive imports, an unfavorable trade balance with western European and overseas countries. This fact proves the importance in purchasing power of the Czechoslovak Republic as a market for the raw materials and manufactured products which it has to secure from abroad. It is estimated that fifty per cent of the total raw materials could be purchased by the Republic directly from the United States.

Since the purchasing power of our exchange was reduced, imports from the United States according to volume have increased from 208,355 long tons in 1920 to 375,806 long tons in 1921, an increase of 80 per cent, the main articles being cotton, copper, foodstuffs, fats and lard, mineral oils, tires, tools,

typewriters, calculating machines, and other characteristic American products. Because the American statistics do not as yet specify goods exported through European ports to Central Europe, more detailed figures are not available.

Exports to the United States constitute an important part of the trade of the Czechoslovak Republic. For 1921 these exports amounted to \$9,615,130. The principal items entering into this trade in 1921 were beads and bead ornaments, \$3,023,140; imitation stones, \$729,137; blown glass, \$535,835; bent-wood furniture, \$509,900; jewelry, \$376,338; chinaware, \$268,942; wood pulp, \$257,459; hops, \$199,443; musical instruments, \$191,661.

TRANSPORTATION

Czechoslovakia inherited a network of railroads which, due to excessive traffic and insufficient maintenance during the War, were in a very poor condition in 1918. The Ministry of Railroads found itself faced with three big problems: (1) the repair of a neglected railroad system; (2) the reorganization of this system in accordance with the national commercial

policy, and (3) the adjustment of tariff rates and wages to meet present cost and living conditions.

The Ministry has adjusted passenger and freight rates, increased the percentage of maintenance work to restore efficient operation, and plans to augment maximum speed to 120 kilometers per hour and double track the respective lines. In addition, this department has provided for several new lines, important for internal administration and independent export trade with countries to the east and south.

The reorganization of railroads will unite more closely Bohemia and Slovakia, formerly dependent upon and served by Austria and Hungary respectively, will bring the river ports nearer to the interior shipping centers, and adjust the schedule of rates to encourage trans-Republic shipping. To accomplish all this and to put 12,694,527 kilometers of state-owned or operated railroads and 968,924 kilometers of privately owned and operated railroads on an efficient operating basis, six and one half million crowns have been allotted by the state.

The reform of the railroad system was begun in 1919, at such an expense that the railroad budget for that year showed a deficit of 240,000,000 crowns. The work was continued during 1920, to a deficit of 625,000,000 crowns additional, and further advanced in 1921. During 1921, however, the good results of the investments began to be felt and the budget showed a surplus of 265,000,000 crowns.

The river and canal system is important for a state forced to purchase heavy raw materials from great distances and to export bulky articles (like lumber). A large part of all goods destined for the western countries and for overseas trade, is transported in barges to Hamburg by way of the Labe (Elbe) River, while the

Danube offers a broad means of transportation to the Balkan states and the Black Sea. To utilize both river systems more economically, it is proposed to construct a canal connecting the Labe and Oder rivers with the Danube.

Already Prague is the vital link in the trans-continental network of airplane traffic from Paris to Constantinople on one line and to Warsaw on another line. This system of aerial navigation supplements an efficient state-owned and operated postal system.

The extensive telephone and telegraph lines (over 10,000 miles of telegraph and more than 11,600 miles of telephone) are likewise state-owned and operated, and work has already begun to supplement the existing facilities with a radio service.

BANKING

The financial condition of a country is necessarily bound up with and dependent upon a sound banking system. Although it was feared that the dismemberment of Austria-Hungary might disrupt banking, the transition was made smoothly and the Czechoslovak banks, by judicious increases of capital and careful investment of funds, have been able to meet every demand imposed upon them for the financial operation of government and commerce.

On October 28, 1918, there were altogether thirty-nine large joint-stock banks, with a total paid-up capital of 551.4 million crowns, on Czechoslovak territory. In order to meet, at least partially, the great demands made upon them by the new situation, the Czechoslovak banks immediately increased their capital and funds and strengthened their organization. The possibility of entering into direct relations with foreign countries, especially

with France, England and America, led many banks to seek the coöperation of foreign capital. Thus, by the end of 1920, the aggregated capital of these banks totalled 914.6 millions with reserve funds amounting to 349.5 million crowns.

The center of the banking business of the Republic is Prague. The twenty-two Prague banks, in 1920, accounted for 83 per cent of the total capital of the thirty-seven banks of the country. The growth of capital since the end of the War has been, for the Prague banks, 41.5 per cent, and the Prague banks have made over 85 per cent of the net profits of all the Czechoslovak banks. All but five of the banks in the Republic finished the year 1920 with favorable balances. After deducting the losses of the five, the net profits amounted to over 198 million crowns.

The growth of bank deposits shows a sound financial condition among the depositors. On December 31, 1920, the deposits in 2,011 financial institutions totaled 17,864,973,000 crowns. On December 31, 1921, deposits in the same institutions totaled 24,759,240,000 crowns—an increase for 1921 of 6,894,267,000 crowns or 39 per cent.

THE CURRENCY REFORM

Austria-Hungary left her currency in complete disorder. The reserve of gold and silver of the Austro-Hungarian Bank, amounting before the War to 1,655 million gold crowns, fell in the course of the War to 342 million gold crowns. The circulation of notes, which before the War was 2,172 million, grew to 30,679 million. Obligations which had to be met immediately by the Bank in the form of payment in notes on demand (current accounts and treasury bills) amounting before the War to 282 million gold crowns reached at the conclusion of the War

the sum of 2,849 million gold crowns. The covering in gold before the War amounted to 76 per cent; at the revolution, merely 1.11 per cent.

The first task of the Czechoslovak Treasury was to provide for the needs of state by establishing an independent currency. The War had depleted the economic resources of the country, the Austro-Hungarian currency had depreciated, and the state credit had been undermined. It was the task of the government and the banks to meet these unhappy conditions and to bring the country to a state of financial soundness and economic prosperity.

By the "Currency Act," passed on February, 25, 1919, the Minister of Finance was given authority: (1) to stamp the then circulating currency within Czechoslovakia; (2) to take over the currency account and treasury bonds of the branches of the Austro-Hungarian Bank in Czechoslovakia; (3) to make specific inventory of all property in the Republic, and (4) to cause the Czechoslovak citizens to declare their property in foreign countries. These last two provisions were passed in order to ascertain the proper basis for levying a property tax.

The separation from the Austro-Hungarian currency was accomplished in the following manner. On February 26, 1919, the frontiers were closed and the bank notes circulating within the Republic, from March 3 to March 9, were stamped with a distinctive mark, showing that they were accepted by the Czechoslovak Republic as its currency. After March 9, all notes not stamped ceased to be legal tender. One-half of the amount of bank notes presented for stamping (practically 2,450 million crowns) was withheld as a 1 per cent forced state-loan.

After the stamping, there remained in circulation bank notes of the value of $5\frac{1}{2}$ billion crowns. The deflation

resulting from the stamping and reduction of circulating money, coupled with the resumption of private enterprise, caused the money market to tighten. This condition necessitated an increase of currency, which has been stabilized at seven billion. To provide, however, against dangerous inflation the National Assembly passed an act, April 10, 1919, which prohibits any increase in the amount of bank notes in circulation above seven billion unless covered by commercial papers, gold and silver treasury reserves, or other collateral.

According to another law passed April 8, 1920, the Minister of Finance has to reduce gradually the amount of uncovered bank notes taken over from the Austro-Hungarian Bank, both those now in circulation and those withheld at the time of stamping by the income from property tax. Although the tax was not yet legally due, 635.5 million crowns had been paid up to December 15, 1921, and a total of 802.3 million up to January 15, 1922. This amount was paid partly in cash and partly by receipts for the notes withheld at the time of stamping. The tax should eliminate the whole amount of uncovered circulation by the end of 1923.

The metallic reserve is composed at present of 18,000 kilo gold and 311,000

kilo silver, which equals 599,000,000 crowns or 5 per cent of the total circulation in the Republic, with a substantial increase of 233,630,000 crowns in seven months. Four per cent of the notes are backed by foreign accounts receivable and foreign currency holdings within the Republic. Twenty-seven per cent is backed by discounted bills, securities, and collateral loans. This makes more than 36 per cent of the note circulation backed by an authorized lawful reserve.

Comparing other countries in this respect we see that Austria (on October 31, 1921) had a circulation of 91 billion of Austrian crowns against a cover of 5.5 million; that Hungary had a circulation of 22,882 million against a cover of 1,007 million. Even the Bank of Italy has not a greater reserve of gold and foreign currency than the Czechoslovak Bank Office; on October 31, the Bank of Italy had 1386.1 million gold lire as against a circulation of 14,322.7 million lire, or not quite 10 per cent cover.

Table IV shows the successive development of the circulation of bank notes.

During 1919 and 1920, the Czechoslovak crown has fallen and risen nearly parallel with the German mark. A difference began to appear in 1921, when the question of German reparations

TABLE IV.—SUCCESSIVE DEVELOPMENT OF THE BANK NOTE CIRCULATION

	MILLIONS OF CROWNS					
	Stamping		Dec. 31, 1919	Dec. 31, 1920	Dec. 31, 1921	March 31, 1922
	Before	After				
Notes in circulation.....	7,714	5,579	6,621	11,289	11,757	10,323
Commercial security.....	.....	.....	668	5,197	5,192	3,832
Gold, silver, and foreign money reserve.....	.....	.....	86	858	1,114	932

was under negotiation; at this time the German mark had fallen below the Czechoslovak crown. On September 22, 1921, Berlin was quoted in Zürich, 5.325, in Prague, 6.85 centimes. During the last collapse of the German mark the Czechoslovak crown withstood the pressure of that event and succeeded in emancipating itself from the mark. Since this time the currency policy of the Republic has attracted some attention in the financial world.

As a temporary bank of issue there has been organized by statute published May 12, 1919, the "Bank Office," attached to the Ministry of Finance, regulating the circulation of money. One of the important respective statute provisions is that the Bank Office must not accord loans to the state.

The future bank of issue will be a joint-stock bank with a capital of 75,000,000 of currency unit in gold. The bank notes will be exchangeable for gold with at least 35 per cent of gold covering.

THE BUDGET

The Czechoslovak government has ever been convinced that the key to a sound financial condition is the bal-

anced budget. To accomplish this, early Ministers of Finance vied with each other in making expenditures conform to government income without stinting the appropriations essential to the accomplishment of vital improvements.

Due to the necessary expenses incurred at the establishment of the Republic, the deficit of the budget in 1919 was five billion (with a budget of 8.6 billion crowns), which was reduced to 4.8 billion in 1920, with a budget of 15 billion. In 1921, the budget of 18 billion crowns was nearly balanced, but extraordinary expenditures in order to check the repeated Hapsburg plots caused a deficit of 700 million crowns. In 1922, with a budget totaling 19,812,960,470 Czechoslovak crowns the deficit is estimated at 900 million crowns, but the steady increase of actual revenue (nearly doubled in the last two years) gives strong indication of a balance in 1922.

During the years 1920 and 1921, the conservatively estimated state income was each time about one billion crowns below the actual state revenue. The surplus shown in Tables V and VI augurs well for a budget balance at the end of this year.

TABLE V.—GROSS BUDGET EXPENDITURES
(In Czechoslovak Crowns)

	1919	1920	1921	1922
Expenses:				
Ordinary	2,609,823,719	7,174,511,865	10,671,959,296	13,288,731,847
Extraordinary	6,005,522,073	8,103,915,167	7,354,500,848	6,524,228,632
Total	8,615,345,792	15,278,427,032	18,026,460,144	19,812,960,479
Income:				
Ordinary	2,613,667,502	7,949,648,782	15,923,316,280	17,290,600,130
Extraordinary	1,096,086,998	2,476,852,012	1,375,600,350	1,593,609,414
Total	3,709,754,500	10,426,500,794	17,298,916,630	18,884,209,554
Deficit	4,905,591,292	4,851,926,238	727,543,514	928,750,935

TABLE VI.—STATE INCOME—1920-1921
(In Czechoslovak Crowns)

	ACTUAL	ESTIMATED	DECREASE—OR INCREASE+	ACTUAL	ESTIMATED	DECREASE—OR INCREASE+
Direct Taxes	1,106,268,382	1,000,649,640	+105,618,742	1,784,244,944	1,545,396,740	+238,848,204
Customs	348,498,969	171,120,500	+177,377,769	766,037,023	755,858,100	+10,179,523
Consumption Taxes	1,465,169,251	644,000,800	+821,168,451	2,607,981,799	2,341,817,110	+266,164,689
State Fees	1,056,346,148	1,078,454,450	-22,108,302	2,390,752,838	2,196,160,227	+194,592,611
State Monopolies	670,910,850	849,271,800	-178,360,950	663,090,343	545,771,131	+117,319,212
Total	4,647,192,900	3,743,497,190	+903,695,710	8,212,107,547	7,385,003,308	+827,104,239

The percentage of expenditures for unproductive items is being cut down yearly, for example, the cut in ordinary expenditures for National Defense, from 20.20 per cent in 1919 to 15.69 per cent in 1922, and extraordinary after-war expenditures have been reduced from 39.62 per cent in 1919 to 3.76 per cent in 1922.

On the other hand appropriations for productive purposes have been steadily increased, as indicated in Table VII.

THE DEBTS

The first debt incurred by Czechoslovakia was a portion of the public debt of the old dual empire. This amount grew, due to the expense of establishing the new government, of repatriating the Czechoslovak legionnaires who fought on the side of the Allies in Russia, Siberia, France and Italy, and of furnishing the emergency relief necessitated by the shortage of foodstuffs, etc. These different items brought the public debt, at the close of the year 1921 (according to the statement of February 6) to forty-three billion Czechoslovak crowns, composed as follows:

	Crowns
International Debts	9,911,757,300
Currency Reform	8,364,270,537
External Debts	8,404,270,852
Peace Treaties	17,125,000,000
	43,805,298,689

A detailed specification is contained in table VIII.

The external debt of the Republic as incurred up to December 31, 1921, is itemized in table IX.

The "liberation tax" which constitutes so large a percentage of the Czechoslovak total debt was determined by the Peace Conference, to be paid to the allied and associated powers. The terms for the payment of this sum have not yet been determined.

TABLE VII.—PER CENT OF TOTAL EXPENDITURES FOR PRODUCTIVE PURPOSES

	1919	1920	1921	1922
Public Education	1.74	1.92	4.65	4.82
Postal and Telegraph	1.86	2.75	5.71	4.40
Railroads	14.15	22.60	28.83	23.52
Public Works	3.46	4.52	6.30	5.19
Social Welfare	0.63	6.47	3.87	3.30
Public Health	0.23	0.30	0.55	0.76

FUTURE PROBLEMS

Czechoslovakia, in a short time, has attained almost normalcy, notwithstanding the fact that the unsettled conditions of the neighboring states hindered its progress considerably.

This achievement is due to the fact that ever since the day of its liberation, Czechoslovakia has followed a definite program step by step, the main features of which are:

- (1) To maintain and enlarge industrial activity under all circumstances;
- (2) To secure intensive agricultural activities and a normal harvest by supplying fertilizers;
- (3) To secure a favorable balance of trade;
- (4) To balance the state budget by eliminating unproductive expenditures and using savings thus obtained for further productive activity;
- (5) To deflate the currency as rapidly as business conditions permit.

The rising exchange (about 2 cents) brought the country face to face with another problem—price adjustment in the markets of the world. Because wages and living conditions could not be immediately readjusted to conform to the increased international value of Czechoslovak money, the Czechoslovak export industries saw further expansion hampered by the competition of countries with deteriorated rates of exchange, notably Germany. It was evident that production costs must be reduced. This is to be effected not

only by a lowering of wages and transportation, but principally by a thorough reorganization and elimination of waste in industry, coupled with standardized production and concentrated group marketing. New sources of wealth and industrial activity lie in the exploitation of the water powers ($1\frac{1}{2}$ million horse power) and in the electrification of the whole country.

To solve these problems Czechoslovakia honestly believes is to “do her bit” in the *general* reconstruction in the most effective way.

The main part of this tremendous task of world reconstruction can be accomplished only by engineers. Not only should they take a prominent place in the many international present and future economic and financial conferences to divert the nations from the after-war distress, but they should endeavor to prevent future conflicts. I consider it the supreme task of every engineer, notably of the great peaceful army of the American engineers, to do their best to have a “World’s Engineering Federation” established as soon as possible.

The up-to-date methods of economic supremacy must be changed by international distribution of work according to principles of highest economy. A “World’s Engineering Federation” should spread technical and economic progress through the world by *international* technical coöperation.

I am highly pleased to know that

TABLE VIII.—DEBTS OF THE CZECHOSLOVAK REPUBLIC
(A. *Internal Debts in Czechoslovak Crowns*)

	December 31, 1921	February 6, 1922
	<i>Crowns</i>	<i>Crowns</i>
1. National Liberty Loan	1,000,000,000	1,000,000,000
2. 4 per cent State Treasury notes	1,048,054,000	1,048,054,000
3. 4½ per cent Premium Loan	540,811,300	540,811,300
4. Fourth State Loan	3,000,000,000	3,000,000,000
5. 6 per cent State Treasury bonds	1,536,185,000	1,536,185,000
6. 5 per cent State Treasury notes	952,820,000	952,820,000
7. 6 per cent State Treasury notes	677,308,000	677,308,000
8. 2 per cent Premium Building Loan	25,896,000	44,104,500
9. 6 per cent State Investment Loan	217,549,000	229,359,018
6 per cent State Investment Loan	234,895,800	300,756,607
10. 3½ per cent Exchange Stabilization Loan	250,000,000	250,000,000
11. 5½ per cent Military Equipment Loan	322,000,000	322,000,000
12. 6 per cent Flour Loan	106,238,200	220,706,300
	9,911,757,300	10,122,104,725

(B. *Debts Resulting from the Currency Reform*)

	<i>Crowns</i>	<i>Crowns</i>
1. Bank notes in circulation	6,818,800,292	6,794,143,767
2. 1 per cent State Loan replacing the bank notes	1,056,807,000	888,247,000
3. 1 per cent check accounts	269,015,245	269,015,245
4. 4 per cent treasury notes	219,648,000	219,648,000
	8,364,270,537	8,171,054,012

(C. *External Debts in Czechoslovak Crowns*)

Loans granted by:	<i>Crowns</i>	<i>Crowns</i>
United States \$ 91,179,528	6,245,797,668	4,832,514,984
England £ 2,429,564	694,855,464	563,658,848
France Francs 1,149,212	78,721,022	60,908,236
France Francs 128,152,226	702,274,198	579,248,061
France Francs 750,000	4,110,000	3,390,000
Italy Lire 180,000,000	520,200,000	448,200,000
Germany Marks 425,000,000	158,312,500	108,906,250
	8,404,270,852	6,596,826,379
Specification of the debts to the United States in dollars:		
1. Debt to the United States Treasury for advances made under the Liberty Bond Act	\$61,256,206.74	
2. Debt on account of sales of surplus war materials (Act of July 9, 1918)	20,612,300.11	
3. Debt to the American Relief Administration (Act of Feb. 25, 1919)	6,428,089.19	
4. Debt to the United States Grain Corporation (Act of March 30, 1920)	2,873,238.25	
	\$91,169,834.29	

(D. *Debts According to the Peace Treaties*)

	<i>Crowns</i>	
1. Pre-war debt of former Austria-Hungary	4,000,000,000	
2. Liberation debt Francs 750,000,000	13,125,000,000	
	17,125,000,000	

the American engineer is fully conscious and very happy to see that the engineers of my country coöperate heartily of the importance of his initiative in these endeavors to advance the world, in this far-reaching international work.

TABLE IX.—SUMMARY OF DEBTS OF CZECHOSLOVAK REPUBLIC

	In Czechoslovak Crowns	Per cent
"Liberation tax" to the Allies	13,125,000,000	30.00
Share of the debt of former Austro-Hungarian Empire	4,000,000,000	9.10
Currency reform	8,614,270,537	19.66
Establishment of government	7,168,989,106	16.37
Foodstuffs relief	5,981,878,204	13.66
Military expenditures	2,682,645,946	6.12
Reconstruction	1,574,599,486	3.59
Repatriation of the Czechoslovak army	657,915,410	1.50
Total debts since inception of Republic	43,805,298,689	100

Suggested Measures for World-wide Coöperation

By SIGNOR FRANCESCO QUATTRONE

High Commissioner of Italy to the United States

THE Genoa Conference is one of the greatest importance, not only in the common historical sense, but from the entirely new human point of view which inspires its work. Not only is it, in fact, the greatest international gathering, but here is being laid the cornerstone for a practical system of the much needed world-wide coöperation.

The Washington Conference has attained success by creating a better and more permanent feeling among some of the nations of the world; the Genoa Conference, by also inviting those not present at Washington, will complete and achieve, it is confidently expected, a very much better and more permanent feeling among nearly all the nations of the world. It is true that, technically, the United States of America is not present at Genoa, but I am sure its heart and spirit are there. At a not distant future, when some of

the peoples in Europe realize that it is highly essential to show a real determination to put their house in order, abandoning war-time spirit and an utterly reproachable system of alliances; when still others think and practise so as to convince the people at large that there is only one world standard of national and international honor, then perhaps the United States will sit at a still greater conference and be, on account of its moral position, the most powerful leader in reconstruction work.

LIQUIDATION OF OVER-BUILT FACILITIES

Industrial Europe, as well as industrial America, is suffering on account of over-built facilities; everybody today, it is only human, wants to produce and sell. Not a great many people are able to buy: there is a lack of purchasing power and if we want to